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Susanne Guyer
Executive Director
Federal Regulatory Policy Issues

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NYNEX

November 13, 1995

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Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

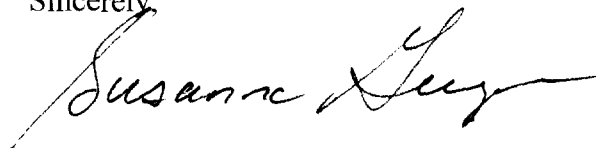
RE: CC Docket 94-1

Dear Mr. Caton:

On Friday, November 9, Mr. F. Gumper, representing NYNEX, met with Mr. J. Nakahata, Legal Advisor to Chairman Hundt, Mr. M. Katz, Chief Economist, Ms. K. Levitz, Deputy Bureau Chief - Policy, and Mr. R. Metzger, Deputy Bureau Chief. The purpose of the meeting was to set forth certain overriding principles that the Commission ought to apply in formulating policy associated with price caps, pricing flexibility and access reform. The attached charts were used during the meeting.

Questions on the attached should be directed to me at the address or telephone number shown above.

Sincerely,



cc: J. Nakahata
M. Katz
K. Levitz
R. Metzger

Attachment

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NYNEX Recycles

Lessons Learned from Competition...

Competitors will target high volume urban customers first.

- **Special Access**
- **Multiline Business**
- **Single Line Business**

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Barriers to Competition differ for Switched and Special Access...

Special Access

- **Authorization to provide service**
- **Ability to collocate and interconnect**
- **Unbundled network elements available**
- **Access to poles, conduits and rights of way**

Switched Access

- **Authorization to provide service**
- **Local exchange competition authorized**
- **Compensation, Interconnection and Intrastate Collocation are available**

Regulatory Framework and Competition...

- **Existing framework reflects view that Price Cap LECs have monopolies.**
 - **Implicit and explicit subsidies in rates.**
 - **Averaged rates across area.**
- **Evolution of competition has demonstrated need for fundamental changes.**
 - **Recognized by the Commission in;**
 - **USPP Waiver Order**
 - **Second FNPRM in Price Cap Proceeding**
- **Adaptive regulatory framework required as competition evolves.**
 - **Industry should know in advance how key regulatory structures will change as competition evolves.**

Public Policy Benefits of Adaptive Regulatory Framework...

- **Provides clear signals, in advance, to the market of changing regulatory framework.**
- **Provides incentives to LECs to facilitate the evolution of competition.**
- **Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.**
- **Addresses concerns of LECs and provides assurance that regulatory framework will adapt and keep pace with competitive developments.**
- **Eliminates continuing regulatory scrutiny of waivers requested in response to competition.**

Proposed Regulatory Framework...

● Phase 1

- **Framework A - Baseline -**
 - No competitive presence or market entry.
- **Framework B - Barriers to Entry Removed -**
 - Exogenous and endogenous barriers removed.
 - Market is open to competitive entry.
- **Framework C - Competitive Presence -**
 - Barriers to entry removed.
 - Competition is present throughout major segments of LEC market.

Proposed Regulatory Framework...

- **Phase 2 - Streamlined Regulation -**
 - **Follows Framework C.**
 - **Products and areas are subject to effective competition.**
 - **A service, or group of services, in the relevant market area is removed from price cap.**
- **Phase 3 - Nondominant Status -**
 - **Follows Streamlined Regulation.**
 - **LEC classified as nondominant for a service, or group of services, in the relevant market area.**

Proposed Regulatory Framework...

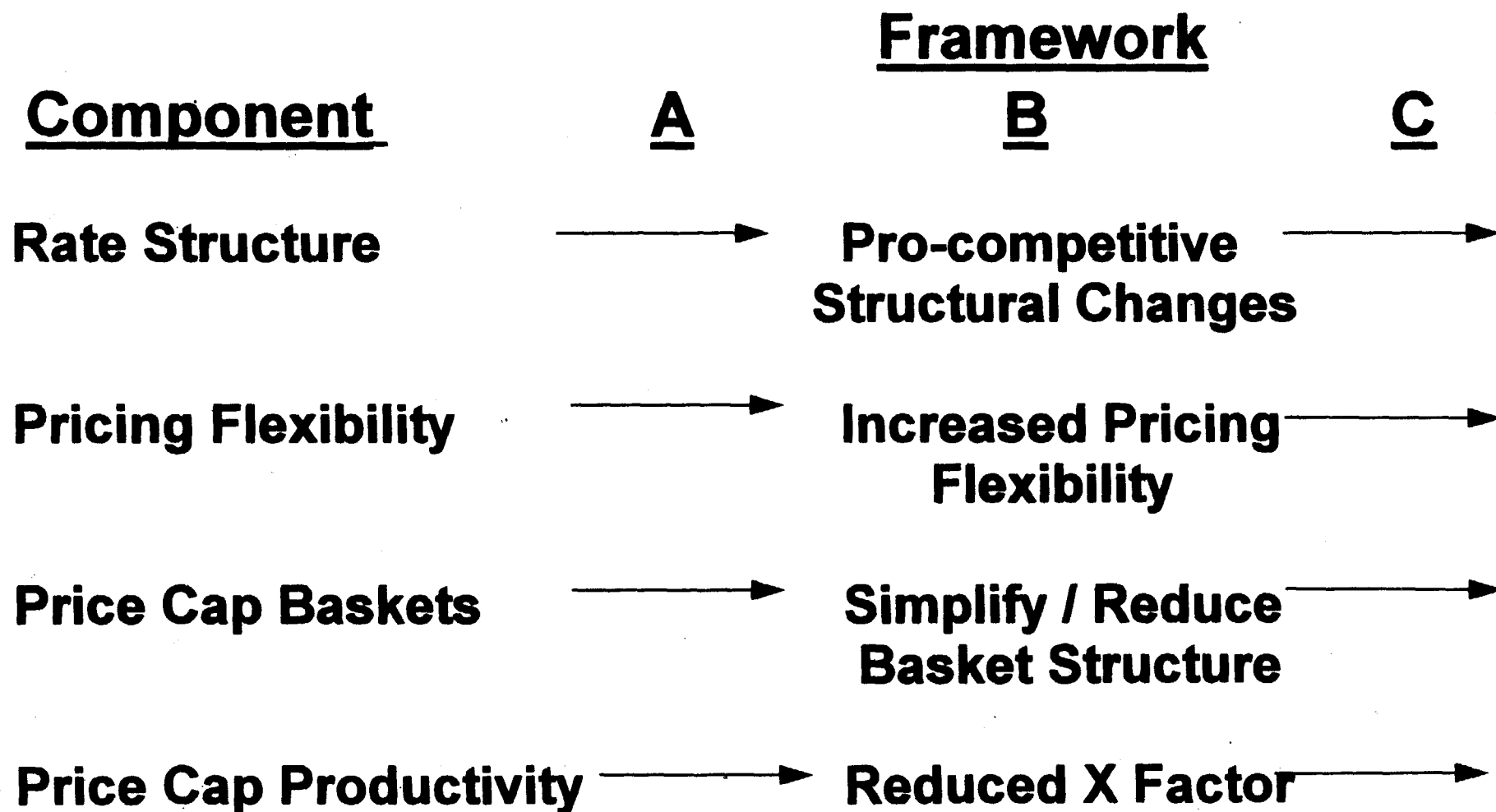
● Criteria

- **Transition from Framework A to B -**
 - **Barriers to Entry removed in areas/jurisdictions overseeing “X%” of the LEC’s access lines.**
- **Transition from Framework B to C -**
 - **Barriers to entry removed in all areas/jurisdictions.**
 - **Competitive presence in areas representing “X%” of the LEC’s total business access lines.**
- **Transition from Framework C to Streamlined -**
 - **Demonstration of demand responsiveness of 15%.**
- **Transition from Streamlined to Nondominant -**
 - **LEC services must be subject to streamlined regulation for 1 (or 2) year(s), and competition has not been impeded.**

Regulatory Framework should Address...

- **Rate Structure**
- **Subscriber Line Charge**
- **Pricing Flexibility**
 - Lowering Prices
 - Raising Prices
- **Price Cap Structure**
 - Baskets and bands
 - Productivity - X Factor
 - Carrier Common Line
- **Flexibilities for introducing new services**
- **APPs and Volume and Term Discounts**

Components of Adaptive Regulatory Framework Change as Competition Evolves...



Components of Adaptive Regulatory Framework A

- **Rate Structure**

- **Pricing Flexibility**

- **Price Cap Baskets**

- **Productivity**

- **Present Rate Structure**

- **Streamlined Part 69 Waiver Process**

- **Alternative Pricing Plans(APP)**

- **More flexible Band Limits (+5%, -15%)**

- **Existing Price Cap Structure**

- **Productivity Factor: X**

Components of Adaptive Regulatory Framework B

- **Rate Structure**
 - Zone Structure for LS, CCL, and IC
 - LTS recovered on market share
 - SL/ML structure for LS, CCL, and IC
 - ML CCL recovery on basis of IXC's SL PSLs
 - Increase EUCL
- **Pricing Flexibility**
 - Volume and Term pricing
 - Greater downward pricing flexibility (e.g., 25%); limited upward (e.g., +3%)
 - Expedited new service introduction
- **Price Cap Baskets**
 - Consolidation of service categories; move to segment into special, switched and common line
 - One basket for operator services, data base, etc.
- **Productivity**
 - Lower productivity; X - a

Components of Adaptive Regulatory Framework C

- **Rate Structure**
 - Further segment ML structure into “small” and “large” business
 - Deaverage EUCL by Zones
 - Establish higher SL EUCL for Zones 2 & 3
- **Pricing Flexibility**
 - Unlimited downward flexibility (- 100%)
 - Limited upward flexibility (e.g., +2%)
 - New service introduction on 14 days notice (with cost support)
 - Authority to Respond to RFPs
- **Price Cap Baskets**
 - Further consolidation of baskets and categories
 - Eliminate CCL formula in Common Line
 - Combine TS and Trunking Baskets; distinguish special and switched service categories
- **Productivity**
 - Lower productivity; $X - b$